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--PERU: FUJIMORI GAINS STRENGTH

IN THE SIX MONTHS SINCE THE APRIL 5 CIVIL-MILITARY COUP. PRESIDENT ALBERTO FUJIMORI HAS OUTMANEUVERED THE OPPOSITION, PLACATED THE OAS. AND WON A STUNNING VICTORY IN THE BATTLE WITH THE SHINING PATH (SL) BY CAPTURING ABIMAEEL GUZMAN, ITS FOUNDER AND LEADER. ALTHOUGH PERU HAS ONE OF THE MOST STRINGENT AUSTERITY PROGRAMS IN LATIN AMERICA. FUJIMORI.S POPULARITY RATING IS CLOSE TO 75 PERCENT IN THE WAKE OF THE SEPTEMBER 12 CAPTURE, AND NOMINALLY INDEPENDENT PARTIES LOYAL TO THE PRESIDENT APPEAR POISED TO WIN A MAJORITY IN THE NOVEMBER 22 DEMOCRATIC CONSTITUENT CONGRESS (CCD) ELECTIONS.

THE NEW CONSTITUTION PROBABLY WILL STRENGTHEN THE POWERS OF THE PRESIDENCY AND UNDERCUT THE DOMINANCE OF THE TRADITIONAL POLITICAL PARTIES. FUJIMORI.S AUTOCRATIC AND SECRETIVE MODUS OPERANDI ULTIMATELY MAY UNDERMINE HIS EFFORTS. HOWEVER. (C)

DEAD END FOR SHINING PATH? THE PRESIDENT'S PLEDGE TO WIPE OUT TERRORISM BY 1995 GAINED SUBSTANTIALLY IN CREDIBILITY WITH GUZMAN.S ARREST' PARTICULARLY BECAUSE IT FOLLOWED THE JUNE CAPTURE OF MRTA LEADER VICTOR POLAY. GUZMAN'S DETENTION COULD NOT HAVE COME AT A BETTER TIME FOR FUJIMORI, IN VIEW OF THE NOVEMBER CCD ELECTIONS. THE EUPHORIA IN LIMA IS PALPABLE, THOUGH ACCOMPANIED BY FEAR OF NEAR-TERM SL RETALIATION. (C)

IT REMAINS UNCLEAR WHETHER SL CAN REGROUP UNDER NEW LEADERSHIP. THERE IS LITTLE REASON TO EXPECT A SHORT-TERM COLLAPSE, BUT SL'S LONG-TERM PROSPECTS APPEAR DIMMER. THE OUTCOME OF GUZMAN'S MILITARY TRIAL IS NOT IN DOUBT, THOUGH THE SCHEDULED OCTOBER 27 ANNOUNCEMENT OF THE VERDICT AND SENTENCE IS LIKELY TO PROVOKE A VIOLENT SL RESPONSE, ESPECIALLY IF FUJIMORI FINDS A WAY TO JUSTIFY THE DEATH PENALTY. (C)

INTERESTED PARTIES. FUJIMORI JUSTIFIED HIS APRIL 5 DISSOLUTION OF CONGRESS PARTLY ON GROUNDS THAT AN ANTIDEMOCRATIC "PARTYOCRACY" DEPRIVED THE PEOPLE OF "REAL DEMOCRACY." PROCEEDING ON THIS PREMISE, FUJIMORI HAS TRIED TO DIFFUSE THE POWER OF THE TRADITIONAL PARTIES. WHICH CONSTITUTE HIS MAIN OPPOSITION. BOWING TO PRESSURE FROM THE OAS FUJIMORI AGREED TO A NATIONAL DIALOGUE AS A PRELUDE TO CCD ELECTIONS. BUT THE FRACTIOUS PARTIES LARGELY BOYCOTTED THE PROCEEDINGS. ALLOWING THE PRESIDENT TO WRITE HIS OWN ELECTORAL RULES. (C)

BEFORE GUZMAN'S CAPTURE, MOST PARTIES FEARED THAT ENTERING THE CCD CONTESTS WOULD LEGITIMIZE A FUJIMORI DICTATORSHIP AND HOPED THAT INTERNATIONAL PRESSURE WOULD FORCE CONCESSIONS. SOME OF THESE PARTIES NOW APPEAR TO

BE LEANING TOWARD PARTICIPATION IN THE ELECTIONS. THE POPULAR CHRISTIAN PARTY HAS OPTED TO ENTER. EXILED FORMER PRESIDENT GARCIA.S APRA, HOWEVER, HAS DECIDED TO BOYCOTT. PERHAPS FEARING AN EMBARRASSINGLY POOR SHOWING. FORMER PRESIDENT BELAUNDE'S POPULAR ACTION HAS DECIDED TO FORGO THE CCD CONTESTS BUT TO RUN IN NEXT JANUARY.S MUNICIPAL ELECTIONS. SMALLER PARTIES ARE GATHERING SIGNATURES OR FORMING COALITIONS TO QUALIFY FOR REGISTRATION BY OCTOBER 8. (C)

WHILE THE TRADITIONAL PARTIES BICKER INTERNALLY ABOUT WHETHER TO PARTICIPATE IN THE ELECTIONS, FUJIMORI'S CAMPAIGN IS ALREADY UNDER WAY. POLLS REFLECT WIDESPREAD REJECTION OF THE TRADITIONAL PARTIES AND AN OVERWHELMING VOTER PREFERENCE FOR NOMINALLY INDEPENDENT CANDIDATES. FUJIMORI IS OFFERING SUPPORTERS THREE BRANDS OF THE SAME BASIC PRODUCT: HIS 1990 ELECTORAL VEHICLE CHANGE 90; THE RECENTLY FORMED NEW MAJORITY MOVEMENT, HEADED BY HIS FORMER ENERGY MINISTER AND CONFIDANT JAIME YOSHIYAMA; AND, ACCORDING TO A PRESS REPORT, AN "INDEPENDENT" PARTY HEADED BY FORMER FOREIGN MINISTER CARLOS TORRES. (C)

IF THE ELECTION WERE HELD TODAY, FUJIMORI LOYALISTS WOULD CLEARLY WIN A MAJORITY. ASSUMING THEY DO SO IN NOVEMBER, THE NEW CCD PROBABLY WILL DRAFT A CONSTITUTION TAILORMADE FOR FUJIMORI, POSSIBLY INCLUDING NEW PROVISIONS ALLOWING FOR REELECTION OF AN INCUMBENT PRESIDENT. (C)

FUJIOCRACY. FUJIMORI SEEMS TO BE GETTING AWAY WITH HIS UNUSUAL CIVIL-MILITARY COUP. HE CONTINUES TO ENJOY THE SUPPORT OF THE ARMED FORCES WHICH, DESPITE SOME RUMBLINGS IN THE RANKS, ARE PROBABLY DISINCLINED TO TAKE POWER THEMSELVES OR RETURN IT TO THE DISCREDITED PARTIES. THE RECENT SACKING OF AIR FORCE COMMANDER VELARDE UNDERSCORES FUJIMORI.S SELF-CONFIDENCE VIS-A-VIS THE TOP BRASS. HIS TIMETABLE AND GROUND RULES FOR RESTORATION OF DEMOCRATIC INSTITUTIONS HAVE PLACATED THE OAS, AND THE PUBLIC SEEMS UNMOVED BY THE PARTIES' COMPLAINTS ABOUT FUJIMORI'S MANIPULATION OF THE PROCESS. (C)

FUJIMORI IS MORE IN TOUCH WITH HIS PREDOMINANTLY MESTIZO AND INDIAN COUNTRYMEN THAN THE LIMA ELITE EVER WAS. THE PROBLEM WITH THE "NEW PERU" UNDER CONSTRUCTION IS THAT IT COULD BE TOO BASED ON FUJIMORI TO OUTLAST HIM. THE PRESIDENT REMAINS SKEPTICAL OF INSTITUTIONS, DISTRUSTFUL OF ALL BUT A HANDFUL OF CONFIDANTS, AND DRIVEN BY A POTENTIALLY SELF-DESTRUCTIVE MESSIANIC ZEAL. HE MAY WELL ATTEMPT TO ENGINEER HIS OWN REELECTION IN 1995, THEREBY FULFILLING HIS 1991 OFF-HAND REMARK THAT PERU "NEEDS AN EMPEROR FOR 10 YEARS." HIS DEPARTURE FROM THE SCENE. WILLINGLY OR OTHERWISE, COULD LEAVE A VACUUM THAT THE TRADITIONAL PARTIES AND ARMED FORCES WOULD VIE TO FILL. (C) (DRAFTED BY JAMES ALLEN)

--EL SALVADOR-HONDURAS: SOLOMONIC BORDER RULING

THE INTERNATIONAL COURT OF JUSTICE (ICJ) ON SEPTEMBER 11 RENDERED A LENGTHY AND COMPLICATED DECISION ON THE LONGSTANDING SALVADOR-HONDURAS BORDER DISPUTE, AWARDING ROUGHLY TWO-THIRDS OF THE LAND AREAS (BOLSONES) IN QUESTION TO HONDURAS. EL SALVADOR RECEIVED THE TWO LARGEST ISLANDS IN THE GULF OF FONSECA--MEANGUERA AND MEANGUERITA--WHILE EL TIGRE ISLAND WENT TO HONDURAS, WHICH WAS GUARANTEED ACCESS TO THE PACIFIC. THE ICJ ALSO GRANTED EL SALVADOR, HONDURAS, AND NICARAGUA JOINT SOVEREIGNTY OVER THE GULF BEYOND 3 NAUTICAL MILES FROM THEIR RESPECTIVE SHORES. (C)

SALVADORANS STUNNED. PRIOR TO THE DECISION, CONVENTIONAL WISDOM IN BOTH COUNTRIES WAS THAT LAND-POOR EL SALVADOR WOULD BE AWARDED THE BOLSONES. THE DECISION GIVING THE MAJOR PORTION TO HONDURAS WAS A BITTER DISAPPOINTMENT, BUT PUBLICLY AT LEAST MOST SALVADORANS TRIED TO PUT THE BEST FACE ON THE OUTCOME.

PRIVATELY. THERE WERE MUTTERINGS THAT CRISTIANI HAD FAILED TO PREPARE THE POPULATION FOR AN ADVERSE OUTCOME AND HIS ARENA PARTY WOULD SUFFER FOR IT. (S)

DEMILITARIZED ZONE? THE FMLN, MEANWHILE, CLAIMED CRISTIANI WAS NOT SUFFICIENTLY CONCERNED ABOUT THE BOLSONES BECAUSE THEY WERE POPULATED PRIMARILY BY "ITS" PEOPLE. ALTHOUGH THE DISPUTED AREAS ARE NOT HEAVILY POPULATED (ABOUT 25,000). 10,000-15,000 ARE FMLN SUPPORTERS OR SYMPATHIZERS WITH THEIR OWN CIVIC AND ECONOMIC ORGANIZATIONS. HAVING OPERATED INDEPENDENTLY OF THE GOVERNMENT FOR YEARS, THESE CADRE DO NOT WELCOME A HONDURAN PRESENCE NOW. (S)

THE FMLN HAS PROPOSED DEMILITARIZING THE AREAS OR TURNING THEM INTO A FREE-TRADE ZONE AND GIVING RESIDENTS DUAL CITIZENSHIP. THE FMLN ALSO WANTS REPRESENTATION ON THE BINATIONAL COMMISSION ESTABLISHED BY PRESIDENTS CRISTIANI AND CALLEJAS TO IMPLEMENT THE ICJ DECISION AND IS REQUESTING A UN OBSERVER MISSION TO PROTECT BOLSONES INHABITANTS FROM BOTH COUNTRIES' MILITARIES. (S)

HONDURANS CAUTIOUS. MILITARY AND CIVILIAN LEADERSHIP BOTH APPEARED PLEASANTLY SURPRISED BY THE RULING AND ALERT TO THE SENSITIVITY OF UPROOTING OR RELOCATING BOLSONES RESIDENTS. GENERAL DISCUIA AND OTHERS REPORTEDLY HAVE ADVISED CALLEJAS TO PROCEED WITH CAUTION AND WITHOUT ARROGANCE. NEVERTHELESS HONDURAS IS NOT LIKELY TO ALLOW THE FMLN TO REMAIN IN CONTROL IN HONDURAN TERRITORY. NEITHER IS GENERAL DISCUIA LIKELY TO ACQUIESCE IN A DEMILITARIZED ZONE ON THE HONDURAN BORDER. BOTH COUNTRIES SAY THEY WILL RELY ON THE BINATIONAL COMMISSION TO RESOLVE DIFFICULT HUMAN RIGHTS ISSUES. (S)

CALLEJAS WILL LEAD A LARGE DELEGATION TO SAN SALVADOR FOR CONSULTATIONS AT THE END OF SEPTEMBER THUS BEGINNING THE THREE-MONTH PERIOD OF BILATERAL DISCUSSIONS BEFORE DEMARCATION OF THE NEW BORDERS. THE ICJ RULING APPARENTLY REQUIRES ALL THREE RIFARIAN COUNTRIES--HONDURAS, EL SALVADOR, AND NICARAGUA--TO WORK OUT ISSUES OF ACCESS AND ECONOMIC RIGHTS EXTENDING FROM THE GULF OF FONSECA INTO THE PACIFIC. AT THE MOMENT, NO ONE APPEARS EAGER TO ENGAGE FORMALLY WITH NICARAGUA ON THIS ISSUE. (C) (DRAFTED BY VIVIAN GILLESPIE)

-- NICARAGUA: POLICE AND PROPERTY REFORMS...ALMOST

RECENT PERSONNEL CHANGES AND A NEW "ORGANIC" LAW APPEAR TO MAKE ONLY SUPERFICIAL CHANGES IN THE SANDINISTA-DOMINATED POLICE. THE PROGRESS OF THE CHAMORRO GOVERNMENT'S EFFORTS IN POLICE REFORM, INVESTIGATION OF ANTI-CONTRA VIOLENCE, AND PROPERTY SETTLEMENT REMAINS GLACIALLY INCREMENTAL. (C)

THE ORGANIC POLICE LAW PUBLISHED SEPTEMBER 11 SETS TERMS OF OFFICE AND PERMITS DISMISSAL FOR CAUSE. BUT IT ALSO ENSURES CONTINUED SANDINISTA LEADERSHIP IN TOP JOBS BY PROMOTION FROM WITHIN. MOREOVER, IT DOES NOT APPEAR TO GIVE THE NEW CIVILIAN VICE MINISTER OF GOVERNMENT. ROLAND AVILES. CONTROL OVER PERSONNEL ASSIGNMENTS AND, HENCE, PROMOTION. AVILES IS DESCRIBED AS STRIDENTLY ANTI-SANDINISTA, BUT VERY CLOSE TO PRESIDENCY MINISTER LACAYO AND MORE OF AN IMPLEMENTER THAN AN INITIATOR. (S)

REACTION TO POLICE CHANGES. REACTION AMONG NON-SANDINISTAS TO THE APPOINTMENT OF FERNANDO CALDERA TO REPLACE RENE VIVAS AS POLICE CHIEF HAS BEEN NEGATIVE, ACCORDING TO EMBASSY MANAGUA. NICARAGUAN HUMAN RIGHTS ORGANIZATIONS DESCRIBE CALDERA AS "DANGEROUS" AND A "COMMITTED SANDINISTA." THE BISHOP OF CHONTALES, WHO CLASHED WITH CALDERA IN YEARS PAST, SAID HE WAS "AMAZED" BY THE APPOINTMENT. THE BISHOP AND OTHERS CITED RAMPANT HUMAN RIGHTS ABUSES AND BAD PRISON CONDITIONS UNDER CALDERA'S TENURE AS A REGIONAL

POLICE CHIEF IN THE EARLY-TO-MID 1980S. (C)

FORMER RESISTANCE LEADER AND NOW SOCIAL CHRISTIAN DEPUTY AZUCENA FERREY SAW ONE POSITIVE ASPECT: THAT FORMER SANDINISTA INTERIOR MINISTER TOMAS BORGE WAS NOW FINISHED" IN NICARAGUA BECAUSE THOSE DISMISSED WERE FROM HIS WING OF THE FSLN. (C)

THE GOVERNMENT INSISTS THAT CALDERA WAS THE BEST CHOICE OF THOSE ELIGIBLE FOR THE JOB. CALDERA, FOR HIS PART. HAS PLEDGED TO IMPROVE POLICE BEHAVIOR AND INVESTIGATE THE ASSASSINATIONS OF FORMER CONTRA LEADER ENRIQUE BERMUDEZ AND OTHERS. (C)

ARCHBISHOP OBANDO Y BRAVO HAS AGREED IN PRINCIPAL TO PARTICIPATE IN A TRIPARTITE COMMISSION. TOGETHER WITH REPRESENTATIVES OF OAS/CIAV AND THE GOVERNMENT. TO LOOK INTO KILLINGS OF MORE THAN 100 EX-CONTRAS SINCE 1990. PLANS TO ESTABLISH THE COMMISSION FRAMEWORK APPEAR TO BE MOVING AHEAD. (C)

PROPERTY DECREES ANNOUNCED. THE COMPLICATED PROCESS OF UNTANGLING 10 YEARS OF SANDINISTA CONFISCATIONS AND LAND REFORM IS INCHING FORWARD. ON SEPTEMBER 9 A DECREE SIGNED BY CHAMORRO CREATED A PROPERTY ATTORNEY TO HEAD A THREE-PERSON NATIONAL COMMISSION TO INVESTIGATE AND RECOMMEND RETURN OF PROPERTY OR COMPENSATION. THE REMAINDER OF THE PROPERTY PACKAGE--AN OFFICE IN THE FINANCE MINISTRY TO DETERMINE CLAIM VALUES AND TO ESTABLISH A COMPENSATION FUND AND AN ARBITRATION MECHANISM--SHOULD BE ANNOUNCED LATER THIS MONTH, ACCORDING TO EMBASSY MANAGUA. THIS APPROACH LEAVES IN SANDINISTA POSSESSION PROPERTIES SEIZED AFTER THE ELECTION, WHILE IT OBLIGATES THE GOVERNMENT TO PROVIDE ANY COMPENSATION DUE THE ORIGINAL OWNERS. (C)

THIS FAR AND NO FURTHER. THE CHAMORRO GOVERNMENT EVIDENTLY HOPES THE CHANGES WILL BE SUFFICIENT FOR RELEASE OF BADLY NEEDED US ASSISTANCE. FAILURE TO RECEIVE THE US FUNDS PROBABLY WILL PUT NICARAGUA IN NONCOMPLIANCE WITH ITS IMF PROGRAM AND WOULD ENDANGER THE RELATIVELY SUCCESSFUL ECONOMIC PROGRAM. INCENSED BY US PRESSURES, CHAMORRO NONETHELESS HAS WARNED SHE WILL RESIGN RATHER THAN ACCEDE TO MORE DRASTIC US DEMANDS, AND LACAYO SHOWS NO SIGN OF WILLINGNESS TO CONSIDER FURTHER CHANGES IN THE POLICE OR ARMY LEADERSHIP AT THIS TIME. (C) (DRAFTED BY VIVIAN GILLESPIE)

-- MEXICO: LABOR PROBLEMS

ANTICIPATION OF THE NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA) IS BRINGING A WRENCHING ADJUSTMENT TO FIRMS IN MEXICO. LABOR-MANAGEMENT RELATIONS ARE BEING REDEFINED AS FIRMS SEEK TO INCREASE PRODUCTIVITY AND EFFICIENCY BY INTRODUCING MORE FLEXIBLE WORK RULES AND NEW FORMS OF MANUFACTURING AND INVENTORY CONTROL. THIS OFTEN MEANS FEWER WORKERS AND LINKING WAGE HIKES TO PRODUCTIVITY, THREATENING THE POWER OF TRADITIONAL UNION BOSSES ACCUSTOMED TO DISPROPORTIONATE INFLUENCE ON COMPANY OPERATIONS. (C)

THE NEW MEXICO. TO INCREASE MEXICO.S ATTRACTIVENESS TO FOREIGN INVESTORS, PRESIDENT SALINAS HAS TRIED STEADILY TO TRIM UNION POWER YET NOT BREAK FAITH WITH THE POWERFUL MEXICAN LABOR CONFEDERATION (CTM). A TRADITIONAL, ALBEIT WANING, PILLAR OF THE RULING PRI AND A MECHANISM FOR CONTROLLING LABOR. SINCE TAKING OFFICE, SALINAS HAS ORDERED THE ARREST OF CORRUPT UNION OFFICIALS, PROMOTED NEW LABOR LEADERS, AND USED THE DECENTRALIZATION OF PARASTATALS (PEMEX. FOR EXAMPLE) AND SUCH GOVERNMENT FUNCTIONS AS EDUCATION TO WEAKEN CORPORATIST UNION POWER. BUT HE HAS BEEN UNWILLING TO TAKE ON THE CTM AND ITS POWERFUL NONAGENARIAN LEADER. FIDEL VELAZQUEZ, DIRECTLY BY ATTEMPTING TO REFORM MEXICO.S RIGID, OUTDATED LABOR CODE. (C)

A TURNING POINT? THE SALINAS ADMINISTRATION SENT A STRONG SIGNAL TO LABOR WHEN THE NATIONAL LABOR BOARD, PROBABLY AT SALINAS'S BEHEST, RULED ON AUGUST 17 IN FAVOR OF VOLKSWAGEN, MEXICO'S LARGEST CAR MAKER, IN ITS DISPUTE WITH DISSIDENT UNIONISTS. IN EARLY JULY THE DISSIDENTS LED A STRIKE OF 14,000 MEMBERS OF THE INDEPENDENT AUTO WORKERS UNION AT VW'S PUEBLA PLANT, WHICH MAKES MEXICO'S BEST-SELLING BEETLE, AND CARS FOR EXPORT. THE STRIKERS CLAIMED THE ELECTED UNION PRESIDENT HAD SIGNED A NEW CONTRACT--ACCEPTING PROVISIONS TYING RAISES AND PROMOTIONS TO PRODUCTIVITY--WITHOUT VETTING IT WITH THE RANK AND FILE. (S)

VW RESPONDED BY VOIDING ITS OLD UNION CONTRACT. LOCKING OUT STRIKERS, AND THREATENING TO LEAVE MEXICO--A DEVELOPMENT THE GOVERNMENT FEARED COULD HAVE AN ADVERSE EFFECT ON NAFTA AND POTENTIAL INVESTORS. THE LABOR BOARD'S RULING WILL PERMIT THE COMPANY TO REHIRE MOST OF THE WORKERS ON TERMS THAT ENSURE GREATER MANAGEMENT FLEXIBILITY IN THE FUTURE. VW REPORTEDLY PLANS TO BRING IN 40 GERMAN AUTO PARTS MANUFACTURERS TO ALLOW IT TO MEET NAFTA CONTENT RULES. (S)

MEANWHILE. 20,000 TEXTILE WORKERS WENT ON A 58-DAY STRIKE TO DEMAND HIGHER WAGES AND TO PROTEST WORK RULES THAT MEANT FEWER JOBS. ACCORDING TO LOCAL PRESS REPORTS MOST OF THE TROUBLE WAS IN NONCOMPETITIVE FIRMS PRODUCING FOR THE DOMESTIC MARKET: MEXICAN EXPORT COMPANIES ARE ALREADY MAKING THE CAPITAL INVESTMENTS NEEDED TO COMPETE UNDER NAFTA. THE STRIKE. WHICH WAS PUBLICLY SUPPORTED BY CTM LEADER VELAZQUEZ, ENDED AMICABLY ON SEPTEMBER 4 WHEN GOVERNMENT. LABOR. AND INDUSTRY LEADERS AGREED TO A 14-PERCENT WAGE HIKE AND 50-PERCENT PAYMENT FOR LOST WAGES. (C)

SPOKESMEN FOR THE WORKERS CLAIM THE SETTLEMENT MEANS THE INDUSTRY-WIDE COLLECTIVE CONTRACT, WHICH EXPIRED IN JULY, REMAINS IN FORCE. MANY TEXTILE WORKERS HAD PREVIOUSLY REACHED SEPARATE AGREEMENTS WITH THEIR COMPANIES. HOWEVER; WORKERS IN MONTERREY'S HIGHLY AUTOMATED PLANTS RECEIVED 30-PERCENT SALARY HIKES. MOREOVER. DESPITE THE PRI'S PUBLIC SUPPORT FOR THE STRIKERS. THE GOVERNMENT IN PRACTICE ALLOWED THE COLLECTIVE LABOR LAW TO BE IGNORED. THEREBY SETTING A PRECEDENT FOR RESOLVING FUTURE LABOR CONFLICTS. THIS SETTLEMENT, LIKE THE ONE AT VOLKSWAGEN, REPRESENTS A VICTORY FOR MANAGEMENT. (C)

NO PAIN, NO GAIN. EXPANDED TRADE SHOULD INCREASE REAL WAGES FOR MOST MEXICAN WORKERS, BUT MANY OTHERS FACE DISLOCATION AS COMPANIES RESTRUCTURE OR FOLD. LABOR ACTIVISTS IN THREATENED AREAS SAY BUSINESSES ARE USING NAFTA AS A PRETEXT TO WEAKEN THE UNIONS, INCREASING THE POTENTIAL FOR LABOR-MANAGEMENT CONFLICT IN THE SHORT TO MEDIUM TERM. GOVERNMENT OFFICIALS ARE WELL AWARE THAT ONE DOWNSIDE OF NAFTA IS THAT AS LABOR POWER BECOMES LESS CENTRALIZED. IT WILL BE MORE DIFFICULT TO CONTROL THE UNIONS THROUGH TRADITIONAL POLITICAL PAYOFFS, AND LABOR'S LOYALTY TO THE PRI MAY BE IMPERILED. (S)
(DRAFTED BY ANGELO IOFREDDA)

-- ECUADOR: ECONOMIC REFORM ADVANCES DESPITE PROTESTS

THE NEW PRESIDENT OF ECUADOR, FREE MARKET PROPONENT SIXTO DURAN, IS IMPLEMENTING A SERIES OF SPENDING CUTS AS THE FIRST STAGE OF A COMPREHENSIVE PROGRAM TO LIBERALIZE AN ECONOMY MIRED IN RECESSION. (C)

AUSTERITY NOW, LIBERALIZATION SOON. AS HE PROMISED AT HIS INAUGURATION. DURAN THIS MONTH OUTLINED A REFORM PROGRAM INTENDED TO REVERSE SHARP ECONOMIC DECLINE. THE GOVERNMENT DEVALUED THE SUCRE BY 28 PERCENT AND RAISED THE SUBSIDIZED PRICES OF GASOLINE BY 125 PERCENT AND ELECTRICITY BY AS MUCH AS 120 PERCENT. DURAN PLANS TO CUT GOVERNMENT SPENDING BY 4 PERCENT ACROSS THE BOARD, AND ALREADY HAS OBTAINED ASSURANCES FROM COMMANDERS THAT THEY WILL NOT OPPOSE SIMILAR CUTS IN

THE MILITARY. TO FORESTALL POPULAR UNREST, THE PRESIDENT HAS FROZEN PUBLIC TRANSPORT PRICES AND PROMISED WAGE INCREASES. AT THE SAME TIME, ECUADOR WILL LOWER TRADE BARRIERS WITH COLOMBIA. BOLIVIA. AND VENEZUELA. (C)

DURAN INTENDS TO FOLLOW THIS INITIAL ROUND OF MEASURES BY FREEING INTEREST RATES AND SUBMITTING TO CONGRESS BILLS ON CAPITAL MARKET REFORM AND PRIVATIZATION. THE GOVERNMENT PLANS TO BEGIN PRIVATIZING THE HUGE STATE SECTOR BY FIRST LEGALIZING PRIVATE COMPETITION TO GOVERNMENT MONOPOLIES AND THEN SELLING ITS HOLDINGS IN PRIVATE CORPORATIONS. UNDER THIS CAUTIOUS APPROACH, THE PRIVATIZATION OF LARGE STATE COMPANIES WILL FOLLOW. (C)

ECONOMY IN DOLDRUMS. DURAN.S IMMEDIATE PRIORITY IS TO REDUCE INFLATION BY CUTTING EXPENDITURES AND INCREASING TAX REVENUES. DURAN'S TEAM OF FREE MARKETEERS IS HEADED BY HIS VICE PRESIDENT. PRINCETON-EDUCATED

LIBERALIZATION LED THE OPPOSITION TO CALL HIM AN "ECONOMIC TERRORIST." EIGHT OF 14 CABINET MEMBERS ARE BUSINESS EXECUTIVES, INCLUDING THE MINISTERS OF FINANCE. INDUSTRY. AND ENERGY. (C)

DURAN INHERITED AN ECONOMY BESET BY STAGNATION, 50-PERCENT INFLATION, A BUDGET DEFICIT OF 7 PERCENT OF GDF AND OVERRELIANCE ON OIL INCOME. OIL NOW ACCOUNTS FOR HALF OF GOVERNMENT INCOME AND 40 PERCENT OF EXPORTS. BUT RESERVES ARE EXPECTED TO BE DEPLETED WITHIN 12 YEARS. NEGOTIATIONS WITH CREDITORS ON ECUADOR.S ALMOST US DOLS 13 BILLION FOREIGN DEBT ARE STALLED. UNDEREMPLOYMENT IS ESTIMATED AT 50 PERCENT. DEMAND FOR LABOR IS HELD DOWN BY A LABOR CODE OF MORE THAN 600 ARTICLES THAT REGULATES ALMOST EVERY ASPECT OF EMPLOYMENT EFFECTIVELY PROHIBITING MANAGEMENT FROM FIRING OR LAYING OFF WORKERS. CONGRESS REFORMED THE CODE SLIGHTLY LAST YEAR, BUT MANAGERS STILL REGARD HIRING NEW WORKERS AS A LAST RESORT. (C)

WEAK PROTESTS AGAINST REFORM. THE LARGEST LABOR GROUP, THE UNITED WORKERS FRONT, THREATENED TO CALL FOR NATIONWIDE CIVIL UNREST IF THE PRESIDENT WENT AHEAD WITH HIS PLANS, AND THE HEAD OF THE PUBLIC EMPLOYEES UNION LABELED THE REFORMS "NEFARIOUS." PROPAGANDA SUPPORTING PERU.S SENDERO LUMINOSO TERRORISTS HAS NOW APPEARED IN SEVERAL CITIES ANTICIPATING A REACTION TO HIS SEPTEMBER 4 ANNOUNCEMENT OF THE AUSTERITY PACKAGE. THE PRESIDENT AUTHORIZED DEPLOYMENT OF THE ARMED FORCES, AND TROOPS WERE ORDERED INTO THE STREETS ON SEPTEMBER 7 AFTER FOUR SMALL BOMBS EXPLODED AT GOVERNMENT BUILDINGS. (C)

SO FAR THE PROTESTS HAVE HAD NO EFFECT. A RESOUNDING REJECTION BY THE ELECTORATE OF THE FAILED STATIST POLICIES OF THE PAST HAS GIVEN THE DURAN ADMINISTRATION A CLEAR MANDATE TO IMFLEMENT ITS SWIFT AND FAR-REACHING ECONOMIC REFORM AGENDA. IN THE FIRST ROUND OF PRESIDENTIAL BALLOTING, DURAN AND HIS LIKE-MINDED CHIEF OPPONENT RECEIVED 55 PERCENT OF THE VOTE AND THE THREE CENTER-RIGHT PARTIES IN COALITION WITH THE NEW PRESIDENT HOLD 39 OF THE 77 SEATS IN THE UNICAMERAL LEGISLATURE.

(C) (DRAFTED BY MICHAEL ZAK) KANTER

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